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C O N F I D E N T I A L SECTION 01 OF 02 JERUSALEM 000917

SIPDIS

NEA FOR FRONT OFFICE; NEA/IPA FOR
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TREASURY FOR SZUBIN/GRANT/ROSE/NUGENT/HIRSON

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TAGS: ECON EFIN KFTN KWBG IS

SUBJECT: TREASURY DEPUTY SECRETARY KIMMITT AND PMA GOVERNOR
REVIEW STATE OF BANKING SECTOR

REF: JERUSALEM 365

Classified By: Consul General Jake Walles, Reasons 1.4 (b) and (d).

¶1. (C) On May 22, Treasury Deputy Secretary Robert M. Kimmitt and Palestine Monetary Authority (PMA) Governor Jihad al-Wazir met on the sidelines of the Palestine Investment Conference in Bethlehem where they discussed recent developments in the banking sector in the West Bank and Gaza.

Kimmitt began by noting that in recent years foreign investors are increasingly concerned about the influence of illicit financing in making their investment decisions. Government anti-money laundering and combating of financing terrorism (AML/CFT) programs, therefore, have assumed heightened importance in the assessment of potential investments. Kimmitt commended the PMA and Wazir for the progress achieved thus far in the adoption of a strong AML/CFT framework, while also emphasizing the need to commit necessary resources to implementation and enforcement of the PA's AML/CFT regime. He expressed Treasury's commitment to continue to work closely with the PMA, particularly in the sharing of relevant and timely information, when possible.

PMA Advances

¶2. (C) Wazir expressed appreciation for USG support and the constructive dialogue he has maintained with several Treasury officials, including Stuart Levey, Under Secretary for the Office of Terrorism and Financial Intelligence, and Adam Szubin, Director of the Office of Foreign Assets Control. He said that greater information sharing among the USG, GOI and PA would be more effective in combating illicit financing than "media and IDF attacks" on financial institutions operating in the West Bank. Wazir stated that "sledgehammer" actions, such as IDF raids on money changers earlier this year (reftel), undermine PM Fayyad and PMA's efforts. Wazir asserted that the PMA is prepared to act when informed of illicit transactions, such as when the PMA fined a bank and fired its compliance officer last year over misdirected PA salary payments. He also raised the reserve requirement of a troubled bank to 20 percent. (Note: Based on Wazir's previous comments to Econoff, the bank referred to in both cases is the Palestine Islamic Bank (PIB) End note.) Wazir noted that the PMA continues to modernize, with recent adoption of an electronic check clearing system and the launch of an electronic credit information bureau by which banks can generate credit reports for borrowers on-line. All 21 banks operating in the West Bank and Gaza have compliance officers, according to Wazir.

PIB

¶3. (C) In reply to Kimmitt's question about what additional steps are to be taken against the PIB, Wazir said he is pressing the PIB board to remove the PIB general manager for gross mismanagement, for which Wazir claimed there was ample evidence. He cited recent attacks in the Hamas-controlled media against the PMA and him personally as evidence that Hamas is "feeling squeezed" by PMA actions. (Note: Wazir previously conveyed to USG officials that PIB is in receivership and that the board of directors was removed from the bank by the PMA. End Note)

Banking Sector Expansion

¶4. (C) Wazir stated that the banking sector has experienced 22 percent growth in the past year, with assets exceeding USD 7 billion by the end of 2007. He asserted that the percentage of population holding bank accounts is greater than in any of the Arab states except perhaps a couple of Gulf states. Wazir opined that there are too many banks currently operating in the West Bank and Gaza, and expects the number of banks to drop from 21 to 19 by the end of the year. He advised that the PMA has raised the capital required to establish a bank to USD 35 million. Wazir stressed that the OFAC-designation of Al-Aqsa Bank lowers confidence in the banking sector and deters investment. He said he hopes that Al-Aqsa Bank funds frozen in Bahrain will

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be released soon so the bank can be liquidated. He asserted that the GOI is in favor of this.

Correspondent Bank Issue

¶5. (C) Wazir stated that he met recently with Bank of Israel (BoI) Governor Fischer and repeated his proposal that the PMA act as the focal point for clearing checks, in coordination with the BoI, through Israeli banks. Wazir said he remains skeptical that the GOI Postal Bank is capable of serving as the correspondent bank for all banks operating in the West Bank and Gaza. He described the Postal Bank as an inefficient GOI-owned entity likely to charge higher fees for services than Israeli private banks. Wazir said that transactions between Israel and the West Bank/Gaza totaled USD 20 billion in 2007. He added that he has encouraged banks to meet with their Israeli counterparts at least once a month.

¶6. (SBU) Deputy Secretary Kimmitt cleared this message.
WALLES